Click here for Full Issue of EIR Volume 32, Number 9, March 4, 2005

SOCIAL SECURITY

Even Bush's 'Math' Lies; a Jobs Boom Would Perpetuate Surplus

by Paul Gallagher

Why should any intelligent American accept an actuaries' "forecast" about Social Security which is embraced and promoted by President George W. Bush? When Bush received National Intelligence Estimates about *the current situation* in Iraq which displeased him, he called them "just speculation," and "really just guesses." But when he got actuaries' "forecasts" about the income and outgo of Social Security, which stretch out tenuous and very pessimistic assumptions—"guesses"—*a century into the future,* they met the President's policy specifications. Bush decided, "This is the math. Learn the math."

How about this math: From 2001-04, in the reign of Bush's jobless economic policies, the total tax revenue of the Social Security system grew by 5% over three years; usually, it grows by 5-7% *every year.* Between 2002 and 2003, Bush held Social Security's revenue growth to zero. No other President has been able to do that in Social Security's 70-year history. The "President of layoffs" is not believable about the program's future prospects; Social Security taxes are paid by people with jobs and companies with employees. Any long-term forecast embraced by Bush is suspect, especially in light of privatization advocates' takeover of the President's Commission, the Social Security Trustees, and the Social Security Administration.

In fact, we'll show that a long-term "Super-TVA"-type infrastructure recontruction and recovery program, creating millions of new productive jobs, would perpetuate the Social Security surplus for decades.

The analyses made by both the Social Security Actuaries and the Congressional Budget Office, are based on predicting economic developments over the long term—in slow motion—which, if happening rapidly, would be called by their proper name, economic collapse. Employment growth stops. Productivity growth and GDP growth fail. Real wages stagnate. A low birth rate and falling immigration bring the growth of the labor force to a crawl. Federal Reserve Chairman Alan Greenspan claimed on Feb. 15 that these were "inexorable demographics"; but in fact, they are the economics of a century-long recession. If Social Security were eventually bankrupted by these economic conditions, the Federal budget, U.S. debt, the housing bubble, and the dollar would all have blown out long before.

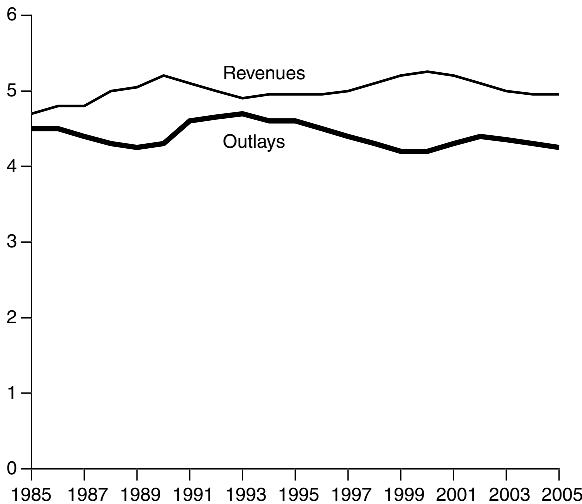
As Democrat Harry Reid (Nev.), the Senate Minority leader, began to do at the Feb. 17 Senate Democratic Policy Committee press conference, let us set aside the "authoritative" actuaries' projections of Social Security. Reid said, truly, on that occasion, "There are several projections out there; we're not talking about them. We're comparing the current Social Security law, to President Bush's plan. And we reject that plan." The right-wing libertarians of the Cato Institute and Heritage Foundation reacted angrily, insisting that Reid and the Democrats return to the "authoritative forecasts" that the Social Security Trust Fund will need interest payments from the Treasury by 2018, or 2020, which the right-wingers insist won't be made. But the evidence is that Social Security grows, not on trees, nor Wall Street mutual funds, nor actuaries' forecasts; but on jobs. Let us see to what kind of forecast that evidence leads, and what we have to do to keep Social Security solvent—if we stop President Bush from stealing it.

Forecasts or Predictions

Look at **Figure 1,** the past 20 years' record of Social Security's tax revenues (the upper graph line) and benefit

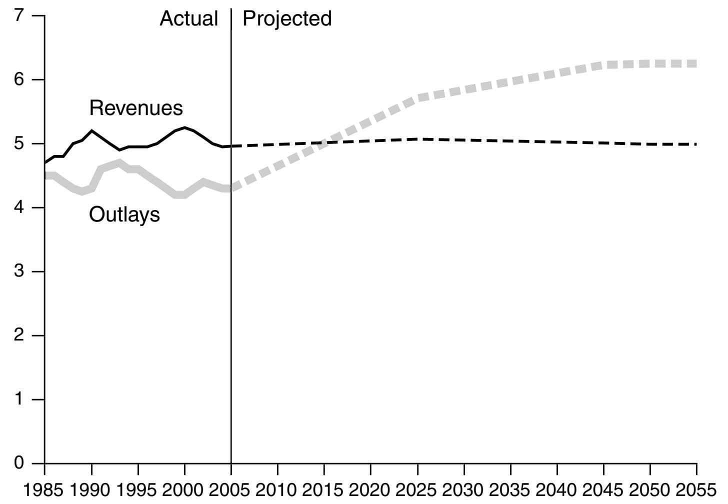
© 2005 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

FIGURE 1
Social Security Revenues and Outlays as Percent of GDP, 1985-2005
(Percent)



Source: Congressional Budget Office, "Outlook for Social Security, June 2004.

FIGURE 2
Social Security Revenues and Outlays as Percent of GDP, 1985-2055
(Percent)



Source: Congressional Budget Office, "Outlook for Social Security, June 2004.

payouts (the lower line), both expressed as percentages of Gross Domestic Product (GDP). This is taken from the Congressional Budget Office's "Outlook for Social Security, June 2004." But this is not the "forecast" part of the chart, which everyone is usually induced to focus on. This is the actual record of Social Security's income and outgo since its current tax structure was set, in the mid-1980s. *Clearly, this lively variation is anything but long-term "predictable."* It reflects economic policies, and their effects.

Leave aside the lower, benefit-payout graph for the moment; it is set by law, and resulted from the varying size of generations retiring, particularly the small size of the cohorts of our population born during the Great Depression of the 1930s.

Focus on Social Security's tax revenues relative to GDP. There are two periods of five years or so, in which employment in the U.S. economy grew by 1.5% annually, or more. (They roughly overlap somewhat more than Presidents Reagan's and Clinton' second terms.) During each of those periods, Social Security tax revenues as a portion of GDP rose, by 3-4 tenths of a percent—a fairly sprightly jump. And there are two shorter periods, in each of which U.S. employment grew by substantially *less* than 1.5% a year (1.2% for 1990-94, and 0.4% from 2000-04). During each of those two periods, the payroll tax as a percent of GDP took an unsightly tumble by about 0.3%.

Over the 15-year period 1985-2000 (i.e., leaving out the jobs bloodbath under Bush "43"), employment and the U.S. labor force grew by an average of just about 1.6% a year, 27.7% over the whole 15 years. And the Social Security payroll tax revenue as a portion of GDP, grew by .55% during that time, from 4.7% to 5.25%.

As of 2005, jobs growth of 1.5% means about 2 million net new jobs a year.

In **Figure 2,** following that 20-year record of variation of both jobs growth and the Social Security surplus, we see a virtually flat and level straight line for 100 years! That is a *prediction,* based simply on a set of assumptions; and supposedly it could only be altered, in Bush's "math," by increasing the tax rate.

But it is not a *forecast,* which must be based on an idea of different economic policies which, if followed, would produce differing hypothetical results.

An American Marshall Plan

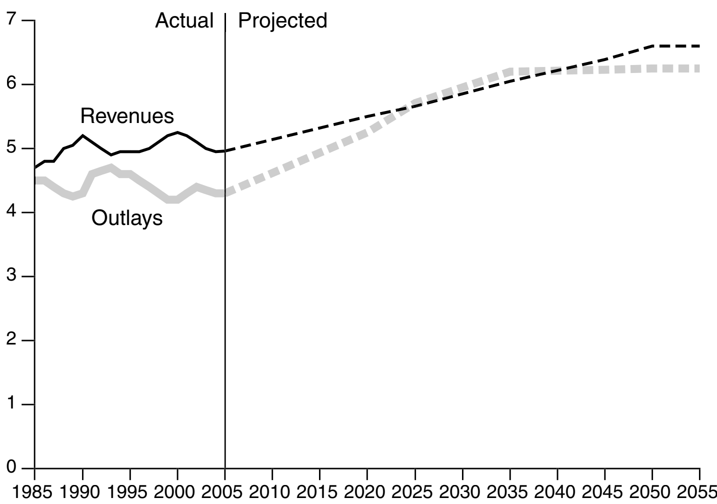
Suppose a bipartisan U.S. leadership, after stopping Bush and Wall Street from stealing Social Security, launches—as a recovery policy from the looming dollar collapse—what Lyndon LaRouche has called an FDR-style "Super-TVA" policy of Federal credits for productive, skilled employment, mainly through high-technology reconstruction of our economic infrastructure. Minority leader Reid has called for "a Marshall Plan for American infrastructure." And suppose such a recovery policy successfully launches an economic growth which keeps productive employment rising at 1.5% a year or better, to the middle of this century? That would mean creating about 2.6 million new jobs a year by 2020, some 3.3 million a year by 2035, and 4 million a year by mid-Century.

If the same relationship of jobs growth, to Social Security revenue growth, which obtained from 1985-2000, were ex-

FIGURE 3

Forecast of Revenues and Outlays, If New Job Creation Is Always 1.5%/Year or Higher, 2005-2050.

(Percent of GDP)



Sources: Congressional Budget Office, "Outlook for Social Security, June 2004"; *EIR.*

tended to the 2050 horizon, **Figure 3** shows what could happen. The hypothesis is: Implement such an "American Marshall Plan," and Social Security doesn't need its surpluses, its special obligation Treasury bonds, to pay benefits. They could, in fact, be used as the reserve basis for some of the large volumes of Federal credits which would drive such a "Super-TVA."

What about Bush's paper-doll cut-outs of "workers" vs. "beneficiaries"—the level of "demographics" his experts think Americans can understand?

The current ratio of contributors to beneficiaries of Social Security, the 3.3-to-1 so much lamented and scorned by Bush, Cheney, et al., has been just about constant for 15 years; and the Social Security system has collected about 130% of what it needs to pay benefits in most of those years. So in fact, a demographic ratio of about 2.5-to-1, employed contributors to beneficiaries, may be the baseline needed—at current average wage levels. (At higher wage levels, the ratio might be lower.) **Figure 4** shows that if the U.S. economy were to keep creating net jobs at 1.5% annually or better, especially productive jobs, that Social Security ratio would stay above 2.5-to-1 to 2050, even through the supposedly death-dealing retirement of the allegedly huge Baby-Boom generation.

Greenspan, Treasury Secretary Snow, the President's Economic Advisors and the actuaries say the "inexorable demographics" make this impossible; it would produce the most drastic labor shortages ever seen.

- They assume that immigration into the United States will fall, by 2025 to 900,000 annually, 100,000 less than the Census Bureau forecasts at that time, and perhaps 20% less than today's immigration level;
- they assume that the birth rate and fertility rate will remain just below "replacement level," although they have been rising;
- they assume U.S. population growth will fall from the current 1.3% to well below 1% annually, a large drop;
- they assume the growth of the American labor force will almost completely halt during the 20 years the Baby Boomers are supposed to be retiring, from 2011-2030, rising very slowly after that, locking down possible job creation to the level of a century-long, deep economic recession;
- they assume that real national wages won't grow at more than 1.1% a year.

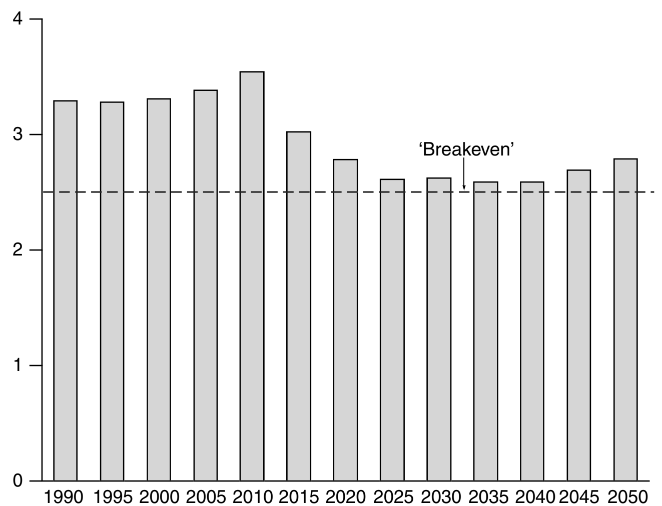
In other words, the actuaries that our illiterate President calls "the math," are *following the Malthusian axiom, so long discredited by American history, that demographic pessimism determines the possibility of economic progress, rather than the other way around.*

It is likely, that the actuaries also assume that Social Security will continue to tax only about 85% of that total national wage—even though it taxed 90% of it only about 15 years ago. The reason? Greater inequality of income—more rich, more poor—takes a greater portion of the national wage above the level at which the Social Security

FIGURE 4

Ratio of Contributors to Beneficiaries If New Job Creation Is Always 1.5%/Year or Higher

(Multiple Ratio)



Sources: U.S. Census Bureau, Population Pyramids; U.S. Bureau of Labor Statistics; *EIR.*

payroll tax applies.

An "American Marshall Plan" mobilization of productive jobs—infrastructure, industrial, and scientific employment—would raise the wages and salaries that are within the Social Security tax (a manufacturing job pays twice, on average, what a retail job pays, for example). And let us not forget that with that kind of job creation, there are 15 million American workers "sitting on the sidelines" right now—unemployed, dropped out of the labor force, forced to work temp or part-time. If even two-thirds of those Americans were productively employed "FDR-style" in a jobs-creation recovery, they represent five years worth of the needed growth of the labor force to put Social Security further into surplus, on top of the natural labor force growth and immigration.

Finally, the actuaries are assuming an extraordinary further increase in the average American lifespan, which is not occurring now, but would be based on future "medical miracles," according to Chief Actuary Stephen Goss. This guess certainly increases the forecast Social Security benefits to be paid out. But it would be welcome; a longer life and higher living standard of the elderly, as Italian government economist Nino Galloni has shown, increases the demand for production, and jobs, among the labor force. And it makes it likely that more elderly Americans will choose to keep working productively past the retirement age.

These actuaries' forecasts about Social Security have become markedly more pessimistic, for no good reason. The so-called "demographic facts" which are held up today as meaning big future deficits, were well-known and taken into account in 1983. "It's a less optimistic estimate today," a former Chief Actuary told the *New York Times* in January.

Well, U.S. economic performance under George W. Bush might be enough to make anyone pessimistic.

So Bush has now become "self-fulfilling prophet" of doom for the Social Security system. Stop Bush's privatization drive, get rid of him and Dick Cheney, launch a serious recovery program for the physical economy of the United States, and Social Security will be found to have a long life-expectancy and no serious ailments.

'Ready-To-Go' Projects

In the 1990s, the National Association of Mayors issued periodic reports, titled, "Ready-To-Go," describing needed state, regional, and local infrastructure projects. In a Feb. 20 speech (see *Feature*), Lyndon LaRouche said that if a concerted mobilization of those projects is done now, with Federal credits, the dollar collapse can be stopped.

Senate Minority Leader Harry Reid (D-Nevada), told the National Press Club on Jan. 31, that America should have a domestic Marshall Plan. "Every city in America has blueprints stacked up, waiting to have the money to do something about sewer systems, water systems, bridges, dams, highways. . . . And if we spent $10 billion on the infrastructure of this country, we would create half a million new jobs. These are high-paying jobs, and the spinoff from these jobs would be significant." Reid pointed out that economic infrastructure investment had sunk since 9/11.

Reid spoke on the issue at the Tahoe Forum, at Sierra Nevada College, Aug. 18, 2001.

America's infrastructure affects our economy, our public health, our environment and our overall quality of life. It needs our immediate attention. Yet it is neglected because repair and construction costs accrue in the short-term while the benefits are long-term. . . . It is time to make some necessary and unavoidable decisions. Time is not on our side. . . .

More than a third of American roads are in poor or mediocre condition, costing drivers an estimated $5.8 billion in repairs every year. More importantly, the poor state of our roads contributes to as many as 13,800 highway fatalities each year. To keep them safe, the U.S. Department of Transportation estimates we need to spend an additional $50 billion more on our highways annually. Twenty-nine percent of our nation's bridges are structurally deficient or functionally obsolete. School buses must stop at many [bridges] and unload the children, and then reload on the other side.

Our airport capacity has increased 1% in the last decade, while air traffic has increased 37% in that time.

The nation's 5,400 drinking water systems face an annual shortfall of $11 billion. . . . The Environmental Protection Agency has estimated that nearly $300 billion will be needed over the next 15 years to upgrade and expand our existing infrastructure to ensure the safety and purity of our water supply. America's 16,000 sewer systems face an additional $12 billion annual shortfall. Many are more than 100 years old.

And maybe worst of all, due to aging or outdated facilities, or overcrowding, 75% of our nation's school buildings are inadequate.

America needs to embark on a modern day Marshall Plan—to rebuild our cities and our towns—creating a surge in economic vitality that will allow America, the greatest nation in the history of our world, to continue on its highway of wisdom, freedom and responsibility.